

Study Session: Small Business Displacement

August 11, 2021

Presenter: Vic Farlie,
Senior Economic Analyst,
Office of Economic Development



*Planning, Building and
Code Enforcement*

Objectives of Presentation

1. Defining small business displacement
2. Business resiliency and managing change at neighborhood level
3. San Jose's anti displacement pilot: emerging lessons and issues
4. How the impact of Covid is reshaping the city's approach to small business resiliency and displacement

Why Small Businesses are important for San Jose

- Key source of resident income and wealth creation
- Over 200,000 people employed in small businesses (approx. 44% of total jobs)*
- Critical element of local neighborhood economic and social cohesion

*Dunn&Bradstreet 2021

Introduction to San Jose Small Business

*San Jose Business tax License data 8.2.21

Type of Business by Headcount	Number of Businesses in San Jose*	% of total Businesses	Average Age of a Business (in Years)
Sole Proprietor/Self Employed	38,605	62	11
Micro Businesses 2-9 Headcount	19,559	31	10.8
10-35 Headcount	2,937	5	15.7
Medium & Large Businesses 35+	1,357	2	17.5
Total	62,458	100	

1. Defining small business displacement

1. What is business displacement?

- Defining small business displacement
- Understanding California's commercial property market
- Assessing small business displacement risk

1. Defining Business Displacement

- Direct displacement: the redevelopment of a specific site
- Indirect displacement: commercial rent increases not matched by an equivalent rise in business income with declining profitability
- Long term asset appreciation: rising demand and a scarcity of land/sites drives higher prices

1. Understanding California's Commercial Property Market

- Minimal restrictions for buying and selling commercial land and property
- No rent control or requirement to financially compensate the business tenant beyond the terms of the current lease/legal agreement.
- If tax dollars are part of the project funding (ie affordable housing/transit) there is a fixed State wide maximum level of compensation to the business tenant: \$31,000* CHAPTER 16. Relocation Assistance [Statutory Code](#)
- Only in a declared emergency such as the Covid Pandemic can the Governor issue an Executive Order enabling local jurisdictions to approve ordinances to protect the commercial property market ie rent eviction moratoriums.

1. Assessing Business Displacement Risk

	Triggers	More Likely	Less Likely....
1. Existing Sites & Site Conditions	Size & condition of parcels/Sites	<ul style="list-style-type: none">• Large under used sites• Ease of Access• No complex site conditions	<ul style="list-style-type: none">• Key site• Requires Aggregation of small sites• Hidden costs
	Existing leases, regulatory obligations and historic covenants	<ul style="list-style-type: none">• No Leases• Limited negotiations• No unforeseen time delays	<ul style="list-style-type: none">• Long Leases• Complex Negotiations

1. Assessing Business Displacement Risk

	Triggers	More Likely	Less Likely....
2. Site Ownership	Land & Property Valuation (short or long term)	<ul style="list-style-type: none">• Undervalued Asset	<ul style="list-style-type: none">• Overvalued Asset
	Characteristics of Land ownership (from independent to corporate)	<ul style="list-style-type: none">• Single Interest – privately owned	<ul style="list-style-type: none">• Multiple owners and/or large public companies
3. Business Activity	Business Density (volume/Jobs/type/sector)	<ul style="list-style-type: none">• Few businesses in low rise buildings i.e. strip mall• Low cost - low margin businesses	<ul style="list-style-type: none">• High density• High Value businesses• Prestige value of location

2. How businesses and neighborhoods protect themselves from negative economic displacement?

2. How the commercial property market & public policy can protect small businesses

- Maintaining a diverse local supply of lettable commercial & industrial property (for all types of business activity)
- Encouraging a diverse mix of business types by industry, employment and economic impact.
- Aggregate household income and patterns of local consumption increase over time

2. How small businesses respond to the risk of displacement & create new opportunities

- Does an area have a defined sense of place?
- Do businesses have a representative 'voice'?
- Do businesses routinely access professional advice/services?
- Do property owners and business tenants have shared interests?
- MOST IMPORTANT: Does the business tenant also own the property?

3. What is the city's business displacement pilot, and what lessons are being learned?

3. San Jose Business Displacement Pilot

- City approved the pilot following a Council Study session on October 1st 2019
- The pilot is centered on the Alum Rock Area
- The pilot created the 'signpost & catalyst' function within the Office of Economic Development

3. What are the 'big' small business displacement pressures in Alum Rock?

- Since late 2019 Residential development and specifically Affordable Housing Projects & proposed Urban Villages.
- By 2023 BART Ph II is scheduled to begin construction. A 10 year \$4bn+ project.

3.What is the 'sign post' function

- Be a point of contact & source of information to local businesses
- Direct small businesses to access free services
- Engage with local business organizations and maintain lines of communication with business leaders

3. Role of catalyst: Key headlines

- City actively collaborating to capacity build local business groups and associations: the Latino Business Foundation (LBF) and the Alum Rock Business Association (ARBA)
- Sourced free access to legal advice through Start Small Think Big & Santa Clara University Law Clinic
- Established links with retail banks, community development financial institutions (CDFIs), and Credit Unions (CU's)

3. The Catalyst role: new business projects in operation and planned?

- A Property Business Improvement District (PBID) designed in partnership with the ARBA and property owners to raise tax \$ for local control is now under active consideration
- Key projects with the LBF include co-designing a virtual business incubator now operational and opening a new neighborhood small business center for late 2021/early 2022 in partnership with Somos Mayfair and Excite Credit Union at Quetzal Gardens on Alum Rock avenue

3. What has been observed to date on displacement risk in the Alum Rock Area?

- Small business owners are generally unfamiliar with the formal planning process
- Some business owners do not understand a lease or operate without a lease
- Small businesses need easy access to free services
- Timing is critical - more lead in time to make decisions by the business owner increases the prospect of successful survival/relocation

3. Results from the recent equity driven small business survey

Over 200 completed responses on the East Side: 90% were business owners of color. The core issues are highlighted :

- Language and cultural competency required
- Access to free services to be delivered by a trusted intermediary
- If the business closed, the owner would look to start a new business in the same industry
- Ability to locate or relocate within the neighborhood
- Programs to enhance the physical appearance of site-specific commercial property

4. Covid 19 impacts to small businesses citywide

4. How the impact of Covid is reshaping the approach to support for small business?

- In 2020 40% of small businesses closed /or experienced very restricted opening conditions
- Uneven negative impact - concentrated in local neighborhoods & small non tech private businesses
- \$35m drop in the city's sales tax in 2020: 75% in restaurants, retail, cars & gas sales
- 27,000 businesses are estimated to lease/rent space in San Jose are protected by a commercial rent eviction moratorium, but fear of an eviction 'cliff edge persists'. Small landlords are under severe pressure

4. How small businesses endured and survived Covid to date?

- Access to capital drives survival and recovery. Over 45,000 separate business loans and grants were secured from Federal and State loan and grant programs in San Jose. Estimated value \$2.6bn.
- But ...take up lowest amongst micro businesses.
- Variations between zip codes reflect the size, sectors and numbers of businesses.

4. How the role of catalyst/OED evolved during Covid to focus on access federal state loans and grants

Alum Rock Zip Code 95116: \$56.9m.

	EIDL Advance		EIDL Loans		PPP		CA Business Relief Grant		Restaurant Revitalization Fund		Total Sum of Loan	Total Sum of Loan Amount
Zip Code	Sum of Loan	Sum of Loan Amount	Sum of Loan	Sum of Loan Amount	Sum of Loan	Sum of Loan Amount	Sum of Loan	Sum of Loan Amount	Sum of Loan	Sum of Loan Amount	All Loans	All \$ Value
95116	103	\$427,000	357	\$2,978,765	820	\$47,521,271	226	\$2,390,000	12	\$3,654,419	1518	\$56,971,455

4. How the PPP Loan program in Alum Rock compares to the rest of San Jose

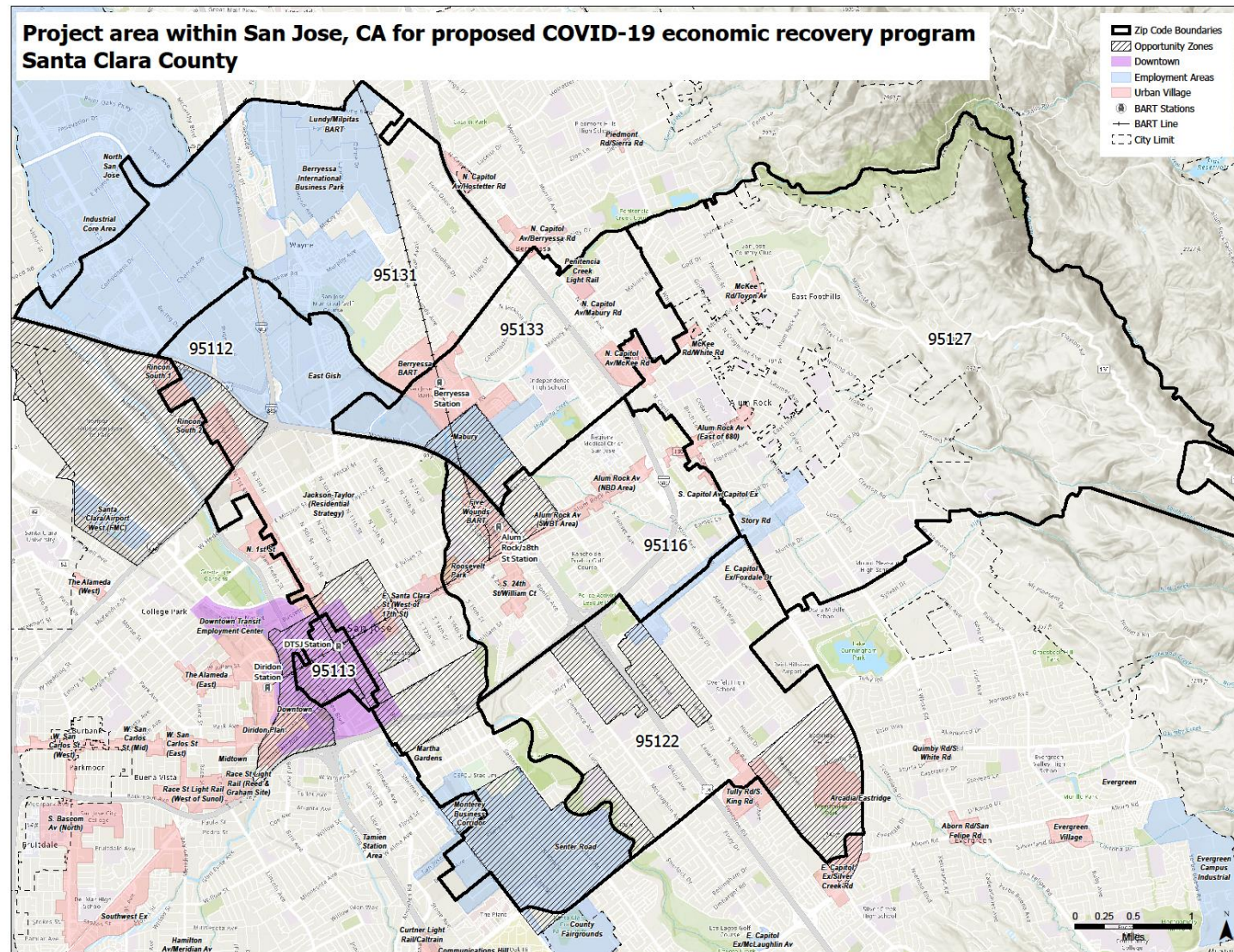
Zipcode 95116 E. Santa Clara/Alum Rock

Business Size	Loan Amount	Loan Count	Average	Biz Tax Licenses	# Receiving Loans	% Takeup	Citywide
Sole Propr.	\$4,016,090	326	\$12,319	1733	246	14%	20%
2-9	\$14,159,026	368	\$38,476	863	240	28%	34%
10-35	\$13,942,434	102	\$136,691	57	72	126%*	88%
35+	\$15,403,722	24	\$641,822	17	16	94%	73%
2-35	\$28,101,460	470	\$175,166	920	312	34%	41%
Grand Total	\$47,521,271	820	\$57,953	2670	574	21%	28%

4. How the city is transitioning from small business survival to recovery

- Addressing the needs of small businesses to become more resilient will be tested within a local zone based approach that has secured federal funding from the Economic Development Agency. This includes the Alum Rock area

4. Small Business Recovery and Resiliency



4. Next Steps

- Covid recovery: Focus on Small Business and neighborhoods most impacted
- Business Displacement: Evaluate what works and developing a city wide approach
- Collaborate: strengthen local business organizations, expand access to free services and encourage asset based investment

Concluding remarks: What can long term success look like?

- Retaining a sufficient local supply of commercial land and property
- Businesses increasingly own assets/property
- Small businesses self organize with a clear community identity
- Entrepreneurship is encouraged with the aim of creating intergenerational wealth
- Both city-wide targeted investment and localized organic innovation create new programs
- Rising household income strengthen neighborhoods

Thank You

Q&A / Discussion